

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 H-02 PA-02 PRS-01 AGRE-00 /111 W

-----221822 001217 /42

R 221705Z FEB 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 5806

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING FEBRUARY 21)

REF.: BONN 2845

### 1. FOREIGN EXCHANGE MARKET:

DURING THE PERIOD UNDER REVIEW FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

#### FORWARD DOLLARS

SPOT DOLLARS (IN PCT. PER ANNUM)

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OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

FEB 14 2.3975 2.3933 2.3940 -0.4 -0.6

15 2.3940 2.3967 2.4000 -0.3 -0.6

16 2.4015 2.4000 2.4010 -0.5 -0.5

17 2.3995 2.3989 2.3990 -0.7 -0.7

18 2.3970 2.3963 2.3955 -0.5 -0.6

|    |        |        |        |      |      |
|----|--------|--------|--------|------|------|
| 21 | 2.3930 | 2.3923 | 2.3910 | -0.4 | -0.6 |
| 22 | 2.3895 | 2.3904 | N.A.   | N.A. | N.A. |

THE DECLINE IN THE SPOT DOLLAR RATE MAY BE ATTRIBUTABLE TO RECENTLY PUBLISHED DATA ON U.S. INDUSTRIAL PRODUCTION AND U.S. COST OF LIVING.

## 2. MONEY MARKET:

DURING THE PERIOD UNDER REVIEW FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

|        | CALL MONEY | ONE-MONTH | THREE-MONTH |
|--------|------------|-----------|-------------|
| FEB 14 | 4.3-4.4    | 4.35      | 4.70        |
| 15     | 4.2-4.4    | 4.35      | 4.70        |
| 16     | 4.0-4.2    | 4.30      | 4.65        |
| 17     | 3.7-3.9    | 4.30      | 4.65        |
| 18     | 3.9-4.1    | 4.25      | 4.65        |
| 21     | 4.3-4.5    | 4.25      | 4.65        |

THE TIGHTENING OF THE CALL MONEY MARKET BEGINNING FEBRUARY 17 MAY REFLECT PAYMENTS FOR THE MID-FEBRUARY TAX DATE AND, PROBABLY, SOME FURTHER BORROWINGS BY PUBLIC AUTHORITIES.

## 3. MINIMUM RESERVE REGULATIONS:

EFFECTIVE MARCH 1, THE BUNDESBANK WILL MODIFY THE SYSTEM OF CALCULATING BANKS' MINIMUM RESERVE REQUIREMENTS. (UNDER THE CURRENT SYSTEM BANKS ARE DIVIDED

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INTO BASICALLY FOUR RESERVE CLASSES ACCORDING TO THEIR TOTAL BUSINESS VOLUME, WITH HIGHER RESERVE REQUIREMENTS IMPOSED ON BANKS WITH A HIGHER BUSINESS VOLUME.) UNDER THE NEW SYSTEM RESERVE REQUIREMENTS WILL INCREASE PROGRESSIVELY ACCORDING TO THE BANKS' BUSINESS VOLUME THEREBY AVOIDING SUDDEN JUMPS TO A HIGHER RESERVE CLASS. AT THE SAME TIME, THE BUNDESBANK REDUCED THE RESERVE PRIVILEGE FOR BANKS IN LOCALITIES WHERE NO CENTRAL BANK BRANCH EXISTS. CURRENTLY LOWER RESERVE RATIOS ARE IMPOSED ON SUCH BANKS. THE BUNDESBANK, HOWEVER, HAS NOT YET MADE PUBLIC ANY DETAILS ON THE NEW REGULATION BUT ESTIMATES THAT THE NEW CALCULATION WILL, FOR THE WHOLE BANKING SYSTEM, RESULT IN A REDUCTION IN RESERVE REQUIREMENTS OF ABOUT DM 1 BILLION.

## 4. ADJUSTMENT OF MONEY MARKET PAPER DISCOUNT RATES:

EFFECTIVE FEBRUARY 21, THE BUNDESBANK HAS REDUCED DISCOUNT RATES FOR MONEY MARKET PAPER NOT RETURNABLE

BEFORE MATURITY TO THE BUNDESBANK. AT THE SAME TIME,  
IT REDUCED RATES ON PAPER USED TO FINANCE THE FEDERAL  
BUDGET (FINANZIERUNGSSCHAETZE). NEW RATES (FOR BOTH  
TYPES OF PAPER) AND FOR COMPARISON PREVIOUS RATES ARE

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INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
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CEA-01 L-03 H-02 PA-02 PRS-01 AGRE-00 /111 W  
-----221822 001216/42

R 221705Z FEB 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 5807  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

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AS FOLLOWS:

MATURITY (MONTHS)

-----  
6 12 18 24  
-----

|                       |      |      |      |      |
|-----------------------|------|------|------|------|
| NEW NOMINAL RATE      | 4.25 | 4.60 | 5.00 | 5.35 |
| YIELD TO MATURITY     | 4.34 | 4.82 | 5.31 | 5.82 |
| PREVIOUS NOMINAL RATE | 4.35 | 4.70 | 5.10 | 5.45 |
| YIELD TO MATURITY     | 4.45 | 4.93 | 5.42 | 5.94 |

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THE BUNDESBANK APPEARS TO HAVE REDUCED RATES OF THE ABOVE PAPER IN ORDER TO FACILITATE SALES BY THE SOCIAL INSURANCE SYSTEM OF DOMESTIC BONDS CARRYING SHORT MATURITIES (PARAGRAPH 5).

#### 5. BOND MARKET:

THE MARKET FOR DOMESTIC BONDS CAME UNDER SOME PSYCHOLOGICAL PRESSURE WHEN THE SOCIAL INSURANCE SYSTEM BEGAN TO SELL SMALL AMOUNTS OF DOMESTIC BONDS TO COVER ITS CURRENT DEFICIT. (ACCORDING TO THE BUNDESBANK, THE 1977 DEFICIT OF THE OLD AGE INSURANCE SYSTEM MAY REACH DM 12 BILLION OF WHICH ABOUT DM 4 BILLION MAY BE FINANCED BY SALES OF DOMESTIC BONDS DURING THE YEAR.) THE INSURANCE SYSTEM REPORTEDLY SOLD ONLY BONDS WITH REMAINING MATURITIES OF UP TO 2 YEARS. SALES WERE MADE BY TENDER; I.E., THE BONDS WERE NOT SOLD DIRECTLY ON THE MARKET BUT BIDS WERE INVITED FROM BANKS.

ACCORDING TO THE PRESS AVERAGE CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

| REMAINING MATURITY |   |   |   |   |   |    |  |
|--------------------|---|---|---|---|---|----|--|
| (YEARS)            | 1 | 3 | 5 | 7 | 9 | 10 |  |
|                    |   |   |   |   |   |    |  |

#### YIELD TO MATURITY

|        |      |      |      |      |      |      |
|--------|------|------|------|------|------|------|
| FEB 18 | 5.10 | 6.35 | 6.80 | 7.00 | 7.20 | 7.25 |
| FEB 11 | 5.10 | 6.40 | 6.85 | 7.10 | 7.20 | 7.30 |

ON THE MARKET FOR FOREIGN DM LOANS THE NORWEGIAN NORGES KOMMUNALBANK IS EXPECTED TO OFFER A DM 100 MILLION LOAN. CONDITIONS MAY INCLUDE A COUPON OF 7 PERCENT AND A MATURITY OF 12 YEARS.

#### 6. DM 400 MILLION CREDIT FOR DENMARK:

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ON FEBRUARY 16 A CONTRACT ON A DM 400 MILLION LOAN FOR THE KINGDOM OF DENMARK WAS SIGNED IN COPENHAGEN. THE LOAN WILL HAVE A MATURITY OF 7 YEARS AND WILL BE PROVIDED BY A CONSORTIUM OF 26 BANKS LED BY THE COMPAGNIE FINANCIERE DE LA DEUTSCHE BANK, A LUXEMBOURG

SUBSIDIARY OF THE DEUTSCHE BANK IN FRANKFURT.

7. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD FEBRUARY 8-15 THE BUNDESBANK'S  
NET FOREIGN POSITION DECLINED BY DM 0.2 BILLION TO  
DM 84.9 BILLION. FOREIGN EXCHANGE HOLDINGS INCREASED  
BY DM 132 MILLION, FOREIGN LIABILITIES BY DM 334 MILLION  
AND GERMANY'S IMF GOLD TRANCHE POSITION BY DM 2 MILLION.

8. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY  
DM 1.0 BILLION. BASIC FACTORS INCREASING LIQUIDITY WERE  
THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE  
SECOND WEEK OF A MONTH (DM 1.3 BILLION) AND A DM 1.0

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-----221820 001191 /42

R 221705Z FEB 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 5808  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

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BILLION DECLINE IN THE BANKS' HOLDINGS OF RESERVES AT

THE BUNDESBANK. OTHER UNSPECIFIED FACTORS, INCREASED LIQUIDITY, NET, BY DM 2.2 BILLION. THE MAJOR FACTOR DECREASING LIQUIDITY WERE TRANSACTIONS OF PUBLIC AUTHORITIES REFLECTING PAYMENTS FOR THE MID-FEBRUARY TAX DATE AND BORROWINGS OF PUBLIC AUTHORITIES INCLUDING DM 2.0 BILLION OF SALES OF FEDERAL GOVERNMENT MEDIUM-TERM NOTES (SEE BONN 2845). THESE TRANSACTIONS ENABLED THE FEDERAL GOVERNMENT TO REDUCE ITS CREDIT TAKEN UP WITH THE BUNDESBANK BY DM 1.9 BILLION TO DM 1.2 BILLION AND TO INCREASE CENTAL BANK ASSETS BY DM 0.2 BILLION. AT THE SAME TIME, STATE GOVERNMENTS' ASSETS INCREASED

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BY DM 1.1 BILLION AND ASSETS OF THE BUNDESPOST DECLINED BY DM 0.3 BILLION. THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S NET FOREIGN POSITION FURTHER REDUCED BANK LIQUIDITY. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 1.0 BILLION TO DM 13.9 BILLION.

#### 9. CENTRAL BANK MONEY:

IN JANUARY, THE VOLUME OF CENTRAL BANK MONEY SEASONALLY ADJUSTED STOOD AT DM 120.9 BILLION AS COMPARED WITH DM 120.3 BILLION (REVISED) IN DECEMBER AND DM 120.1 BILLION IN NOVEMBER.

#### 10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

##### SEASONALLY ADJUSTED BUNDESBANK DATA

-----  
SEPTEMBER OCTOBER NOVEMBER DECEMBER  
-----

#### BUILDING PERMITS FOR

##### HOUSING UNITS

(1970 EQUALS 100) 70 69 70 78

#### RETAIL SALES VOLUME

(1970 EQUALS 100) 116 112 115 --

#### VOLUME OF TRADE

##### (BILLION DM)

|         |       |       |       |       |
|---------|-------|-------|-------|-------|
| EXPORTS | 17.02 | 16.10 | 16.22 | 15.58 |
| IMPORTS | 13.78 | 14.15 | 13.99 | 14.57 |

#### INDUSTRIAL WAGES PER

##### EMPLOYEE (1970

EQUALS 100) 181 183 183 --

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OCTOBER NOVEMBER DECEMBER JANUARY  
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LIVING COSTS

(1970 EQUALS 100) 142.1 142.3 143.1 143.7

INDUSTRIAL PRODUCER

PRICES (1970

EQUALS 100) 143.1 143.1 143.0 --

AGRICULTURAL PRODUCER

PRICES (1970

EQUALS 100) 147.9 146.5 144.8 --

BOTH THE BUNDESBANK AND DIW (GERMAN INSTITUTE FOR  
ECONOMIC RESEARCH, BERLIN) HAVE JUST RELEASED SEASONALLY  
ADJUSTED QUARTERLY GNP ESTIMATES FOR 1976; THESE DATA  
ARE REPORTED SEPARATELY. ACCORDING TO PRELIMINARY  
ESTIMATES OF THE FEDERAL STATISTICAL OFFICE, INSOLVENCIES  
IN 1976 TOTALED 9,361. THIS WAS 166 OR 1.8 PERCENT MORE  
THAN IN 1975. THE INCREASES IN 1975 OVER 1974 AND  
IN 1974 OVER 1973 CAME TO 19 AND 40 PERCENT,  
RESPECTIVELY.  
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## Message Attributes

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**Copy:** SINGLE  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
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**Disposition Comment:**  
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**To:** STATE TRSY  
**Type:** TE  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009